

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



MADERA COUNTY LIVESTOCK ASSOCIATION  
CHOWCHILLA – MADERA COUNTY FAIR  
CHOWCHILLA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-054  
FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

MADERA COUNTY LIVESTOCK ASSOCIATION  
CHOWCHILLA – MADERA COUNTY FAIR  
CHOWCHILLA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

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AUDIT STAFF

Ron Shackelford, CPA  
Shakil Anwar, CPA  
Harvey Hunter, CPA

Audit Chief  
Assistant Audit Chief  
Auditor

AUDIT REPORT NUMBER

#08-054

MADERA COUNTY LIVESTOCK ASSOCIATION  
CHOWCHILLA – MADERA COUNTY FAIR  
CHOWCHILLA, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Ed Bright, President  
Board of Directors  
Chowchilla – Madera County Fair  
1000 S. Third Street  
Chowchilla, California 93610

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the Madera County Livestock Association, Chowchilla – Madera County Fair, Chowchilla, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the Chowchilla – Madera County Fair's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of the Madera County Livestock Association, Chowchilla-Madera County Fair, as of December 31, 2007 and the results of its operations, changes in accountability, and cash flows-regulatory basis for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In 2006, we were unable to apply standard auditing procedures without extensive effort to satisfy ourselves about the disclosed amounts for Account #192, Buildings and Improvements, and Account #192.1, Accumulated Depreciation – Buildings and Improvements, as reflected in Note 4 to the accompanying statement of financial condition at December 31, 2006 (stated at \$3,355,673 and \$2,331,201, respectively). As of December 31,

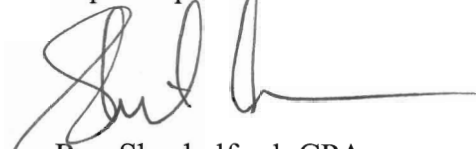


2006, detailed property records were not maintained, and certain prior year records and supporting data were not available for our audit. The effects on the financial statements were not reasonably determinable.

Because of the matter discussed in the fourth paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph. In addition, we will not prepare or present a statement of cash flows as of December 31, 2006 on the Chowchilla – Madera County Fair's behalf.

The Madera County Livestock Association, Chowchilla – Madera County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-054 on the Chowchilla – Madera County Fair's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the Chowchilla – Madera County Fair as appropriate. This additional report, however, is not a required part of the basic financial statements.



Ron Shackelford, CPA  
Chief, Audit Office

November 21, 2008

**MADERA COUNTY LIVESTOCK ASSOCIATION  
CHOWCHILLA-MADERA COUNTY FAIR  
CHOWCHILLA, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION  
December 31, 2007 and 2006**

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>			
Cash in Bank	111 - 119	\$ 245,424	\$ 246,022
Accounts Receivable, Net	131	21,888	22,206
Deferred Charges	143	-	3,550
Land and Land Improvements	191	33,347	17,847
Buildings and Improvements, Net	192	1,400,762	1,024,472
Equipment, Net	193	-	-
<b>TOTAL ASSETS</b>		<b><u>1,701,421</u></b>	<b><u>1,314,098</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities</b>			
Accounts Payable	212	17,947	18,933
Tri-General Credit Line	215	62,215	24,735
Other Payables	211, 221-226	1,417	4,638
Deferred Income	228	12,982	29,997
Compensated Absences Liability	245	4,657	4,461
<b>Total Liabilities</b>		<b><u>99,218</u></b>	<b><u>82,764</u></b>
<b>Net Resources</b>			
Reserve for Junior Livestock Auction	251	(2,240)	(9,878)
Net Resources - Operations	291	170,334	198,892
Net Resources - Capital Assets	291.1	1,434,109	1,042,320
<b>Total Net Resources Available</b>		<b><u>1,602,203</u></b>	<b><u>1,231,334</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 1,701,421</u></b>	<b><u>\$ 1,314,098</u></b>

**MADERA COUNTY LIVESTOCK ASSOCIATION  
CHOWCHILLA-MADERA COUNTY FAIR  
CHOWCHILLA, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY**  
Years Ended December 31, 2007 and 2006

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>REVENUE</b>			
State Allocation	312	\$ 180,000	\$ 180,000
Capital Project Reimbursements	318	17,368	53,041
Millennium Flex Funds	340	62,648	42,362
Admissions	410	66,692	59,721
Commercial Space	415	14,175	13,900
Carnival	421	21,120	20,990
Concessions	422	24,644	17,826
Exhibits	430	18,222	16,536
Attractions - Fairtime	460	425	400
Interim Attractions	460.9	53,954	76,373
Miscellaneous Fair	470	36,806	35,387
Misc. Non-Fair	470.5	2,258	1,857
JLA Revenue	476	38,759	30,855
Non-Fair Revenue	480	69,282	79,430
Prior Year Adjustment	490	(110)	-
Other Operating Revenue	495	12,800	238,494
<b>Total Revenue</b>		<b>619,041</b>	<b>867,171</b>
<b>EXPENSES</b>			
Administration	500	206,283	210,932
Maintenance and Operations	520	191,164	193,049
Publicity	540	10,596	19,145
Attendance	560	18,709	16,036
Miscellaneous Fair	570	3,825	3,421
JLA Expense	576	31,121	32,414
Premiums	580	17,505	17,264
Exhibits	630	19,593	14,859
Attractions - Fairtime	660	66,910	81,808
Prior Year Adjustments	800	(425,727)	-
Cash Over/Short from Ticket Sales	850	233	67
Depreciation Expense	900	42,941	42,441
Other Capital Expenditures, Reimbursable	945	65,015	34,180
<b>Total Expenses</b>		<b>248,171</b>	<b>665,616</b>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		370,870	201,555
Resources Available, January 1		1,231,334	1,029,779
<b>Resources Available, December 31</b>		<b>\$ 1,602,203</b>	<b>\$ 1,231,334</b>

**MADERA COUNTY LIVESTOCK ASSOCIATION  
CHOWCHILLA-MADERA COUNTY FAIR  
CHOWCHILLA, CALIFORNIA**

**STATEMENT OF CASH FLOWS - REGULATORY BASIS  
Year Ended December 31, 2007**

	<u><b>2007</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 370,870
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:	
(Increase) Decrease in Accounts Receivable	318
(Increase) Decrease in Deferred Charges	3,550
Increase (Decrease) in Accounts Payable	(986)
Increase (Decrease) in Line of Credit	37,480
Increase (Decrease) in Payroll Taxes Payable	(3,221)
Increase (Decrease) in Deferred Income	(17,015)
Increase (Decrease) in Compensated Absence Liability	196
Total Adjustments	<u>20,322</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>391,192</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
(Increase) Decrease in Construction-in-Progress	-
(Increase) Decrease in Land	(15,500)
(Increase) Decrease in Buildings & Improvements, Net	(376,290)
(Increase) Decrease in Equipment, Net	<u>-</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>(391,790)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Increase (Decrease) in Long-Term Debt	<u>-</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>-</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(598)</b>
Cash at Beginning of Year	246,022
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 245,424</b></u></u>



**MADERA COUNTY LIVESTOCK ASSOCIATION  
CHOWCHILLA – MADERA COUNTY FAIR  
CHOWCHILLA, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The Madera County Livestock Association, (MCLA) was incorporated on February 28, 1946 as a non-profit organization for the purpose of sponsoring, managing and conducting the Chowchilla-Madera County Fair each year in Chowchilla, California. The State of California, Department of Food and Agriculture through the Division of Fairs and Expositions provides limited oversight responsibility to the MCLA. The MCLA has been appointed by the County of Madera to operate and manage the Chowchilla-Madera County Fairgrounds, including all activities carried on upon the fairgrounds on behalf of the County of Madera. The primary activities are the annual Chowchilla-Madera County Fair, Junior Livestock Auction and building and equipment rentals.

The State of California allocates funds annually to the County of Madera. These funds are disbursed upon request to the MCLA to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the MCLA conform to accounting principles applicable to district agricultural associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The MCLA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The MCLA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The MCLA is a non-profit organization exempt from federal income taxes under Section 501 (c)(5) of the Internal Revenue Code and from state income taxes under Section 2370(d) of the California Revenue and Taxation Code.

Cash and Cash Equivalents - The MCLA's cash and cash equivalents are held in various local banks with some funds on deposit with the County of Madera. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the MCLA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the MCLA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at least ten percent in excess of the uninsured funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no

depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the MCLA’s sales of merchandise. The MCLA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The MCLA’s accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

**NOTE 2      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the MCLA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 100	\$ 100
Cash in Bank - Operating	15,801	8,138
Cash in Bank - Premium	(640)	(4,131)
Cash in Bank - JLA	1,770	1,221
Cash in Bank – Time Deposits	<u>228,392</u>	<u>240,694</u>
Total Cash and Cash Equivalents	<u>\$ 245,424</u>	<u>\$ 246,022</u>

**NOTE 3      ACCOUNTS RECEIVABLE**

The MCLA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 18,164	\$ 20,513
Accounts Receivable - JLA	5,507	1,693
Allowance for Doubtful Accounts	<u>(1,783)</u>	<u>00</u>
Accounts Receivable - Net	<u>\$ 21,888</u>	<u>\$ 22,206</u>

**NOTE 4      PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	2007	2006
Building & Improvements	\$3,054,990	\$3,355,673
Less: Accumulated Depreciation	(1,654,228)	(2,331,201)
Building & Improvements - Net	<u>\$1,400,762</u>	<u>\$1,024,472</u>
Equipment	\$ 20,161	\$ 89,744
Less: Accumulated Depreciation	(20,161)	(89,744)
Equipment - Net	<u>\$ 0</u>	<u>\$ 0</u>

NOTE 5 **LINE OF CREDIT**

The MCLA has an unsecured \$100,000 revolving line of credit. Interest is payable monthly at a rate of 3.5% added to the index as defined in the loan agreement. The line of credit is subject to semi-annual and annual renewal. At December 31, 2007, the outstanding balance totaled \$62,215.

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the Madera County Livestock Association are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the Madera County Livestock Association and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The Madera County Livestock Association's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The Madera County Livestock Association, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the Madera County Livestock Association participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under

which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7      **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**MADERA COUNTY LIVESTOCK ASSOCIATION  
CHOWCHILLA – MADERA COUNTY FAIR  
CHOWCHILLA, CALIFORNIA**

**REPORT DISTRIBUTION**

<b><u>Number</u></b>	<b><u>Recipient</u></b>
1	President, Chowchilla-Madera County Fair Board of Directors
1	Chief Executive Officer, Chowchilla-Madera County Fair
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



MADERA COUNTY LIVESTOCK ASSOCIATION  
CHOWCHILLA-MADERA COUNTY FAIR  
CHOWCHILLA, CALIFORNIA

MANAGEMENT REPORT #08-054

YEAR ENDED DECEMBER 31, 2007

MADERA COUNTY LIVESTOCK ASSOCIATION  
CHOWCHILLA-MADERA COUNTY FAIR  
CHOWCHILLA, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2007

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AUDIT STAFF

Ron Shackelford, CPA  
Shakil Anwar, CPA  
Harvey Hunter, CPA

Audit Chief  
Assistant Audit Chief  
Auditor

MANAGEMENT REPORT NUMBER  
#08-054



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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Ed Bright, President  
Board of Directors  
Chowchilla-Madera County Fair  
1000 S. Third Street  
Chowchilla, California 93610

In planning and performing our audit of the financial statements of the Madera County Livestock Association, Chowchilla-Madera County Fair, Chowchilla, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Chowchilla-Madera County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the Chowchilla-Madera County Fair's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the Chowchilla-Madera County Fair's assets. The system of internal control should provide the Board of Directors and management



reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the Chowchilla-Madera County Fair in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The Chowchilla-Madera County Fair's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the Chowchilla-Madera County Fair's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the Chowchilla-Madera County Fair and compliance with state laws and regulations, we identified five areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for fixed assets, independent contractor, junior livestock auction, employee living on fairgrounds, and reimbursement of mileage expenses. We have provided eight recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the Fair's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### ACCOUNTING FOR FIXED ASSETS

An examination of the fixed asset records revealed the following internal control weaknesses that should be addressed in order to improve the quality of the accounting records:

- a. The property ledger for Account #192, Buildings and Improvements, has not been updated and therefore is not accurate as of December 31, 2007. The Fair is utilizing the asset depreciation schedule as its property ledger rather than a detailed property ledger. This is an inadequate method for managing building and improvement assets. The property ledger is a subsidiary ledger, which maintains detailed fixed asset information to support the general ledger account balance and the depreciation schedule. The depreciation schedule merely summarizes the information and does not reflect detailed financial information. This was a prior year finding.
- b. For Account #192, Buildings and Improvements, the historical cost per depreciation schedule totaling \$3,054,990 did not agree to the general ledger balance of \$3,370,673 at year-end 2007. Because the depreciation schedule total is more accurate, the general ledger is overstated \$315,683. In addition, accumulated depreciation per the depreciation schedule totaling \$1,654,228 did not agree to the general ledger balance of \$2,374,142 resulting in a \$719,914 overstatement in the general ledger.
- c. For Account #193, Equipment, the general ledger balance totaling \$89,744 did not agree to the depreciation schedule totaling \$20,161 at year-end 2007 resulting in a \$69,583 overstatement in the general ledger. The general ledger contains unidentifiable amounts that should be removed to reconcile to the more accurate depreciation schedule balance. In addition, accumulated depreciation per the general ledger is overstated \$69,583.

### *Recommendations*

1. *The Fair should make it a priority to update the property ledger and ensure it contains accurate detailed information to support the costs capitalized in the general ledger and the depreciation schedule for Account #192, Buildings and Improvements.*
2. *The Fair should adjust the general ledger for Account #192, Buildings and Improvements, and #193, Equipment, to ensure the balances reconcile to the related asset depreciation schedule balances. In addition the Fair should ensure that the property ledger, general ledger, and depreciation schedule reconcile at year-end by performing a year-end reconciliation. Any discrepancies should be researched and resolved prior to closing the accounting period and preparing the year-end accounting reports.*

## INDEPENDENT CONTRACTOR

An examination of service contracts and related supporting documentation with independent contractors revealed the following exceptions:

- a. The Fair did not prepare and submit the DE 542, Report of Independent Contractors, to the Employment Development Department (EDD) as required. Information contained on the form is used to assist the state and county agencies in locating parents who are delinquent in their child support obligations. This report is to be submitted to the EDD within 20 days of paying/contracting for \$600 or more in services.
- b. The Fair did not document what criteria individuals providing services to the Fair met to be properly classified as independent contractors and not temporary employees. Improper classification could result in the Fair being held liable for employment taxes for the worker. This was a prior year finding.
- c. The Fair did not submit a list of prospective nonresident entertainers who will receive \$1,500 or more from the Fair to the Franchise Tax Board (FTB), Withhold at Source Unit. As a result, backup withholding taxes may not have been withheld when required. In addition, the Fair failed to withhold 7% from a nonresident independent contractor. There was no evidence of a waiver or reduced withholding rate from the FTB. This was a prior year finding.

### *Recommendations*

3. *The Fair should ensure that the DE 542, Report of Independent Contractors, is prepared and submitted to the EDD within 20 days of paying/contracting for \$600 or more in services.*
4. *The Fair should document independent contractor criteria met by the individual being classified as an independent contractor.*
5. *The Fair should submit a list of nonresident entertainers who will receive \$1,500 or more from the Fair to the Franchise Tax Board (FTB), Withhold at Source Unit. In addition, without a waiver or reduced withholding rate from the FTB, the Fair should withhold the required 7% from the payments made to a nonresident independent contractor.*

## JUNIOR LIVESTOCK AUCTION (JLA)

Account #117, Cash in Bank – JLA, did not reconcile to Account #251, Reserve for JLA, at year-end 2007, resulting in a \$9,517 variance. According to the Fairs and Expositions (F&E) Accounting Procedures Manual (APM), the balance in the JLA cash account, adjusted for receivables and payables, should equal Account #251, Reserve for JLA. This was a prior year finding.

*Recommendation*

6. *The Fair should comply with the F&E APM and perform an annual reconciliation to ensure that Account #117, Cash in Bank – JLA, plus any JLA receivables agree to Account #251, Reserve for JLA, plus any liabilities.*

**EMPLOYEE LIVING ON FAIRGROUNDS**

The Fair has a permanent employee who lives on the fairgrounds and pays no rent and the value has not been reported as a fringe benefit on his W-2 form. If the Fair does not intend to charge the employee rent, they must determine whether living on the fairgrounds is a fringe benefit to the employee. State-owned housing or rental space in RV parks provided to employees of the DAA at a reduced rate or for no charge may be taxable as a fringe benefit under IRS Code Section 61, which states “Gross income means all income from whatever source derived, including....fringe benefits.” It is the responsibility of each DAA to determine the taxability of housing and document the decision. For housing to be non-taxable, it must meet all of the following criteria: (1) must be on the business premises of the employer, (2) must be for the convenience of the employer, and (3) as a condition of employment.

*Recommendation*

7. *The Fair should determine whether to (i) charge the employee rent for living on the fairgrounds, (ii) document whether living on the fairgrounds is a fringe benefit that must be reported to the IRS, or (iii) document its justification that the housing is non-taxable.*

**REIMBURSEMENT OF MILEAGE EXPENSES**

An examination of employee expense claims revealed a former manager was reimbursed \$1,772 for claimed mileage expenses that were not properly supported during 2007. The manager did not complete the expense reimbursement request forms in sufficient detail. A majority of the expense claims did not contain a detailed description of the travel locations where the mileage expense occurred. Without such detailed information, we cannot determine whether the amounts reimbursed to the employee were accurate and appropriate. The Fair should note that commute mileage is not business related and should not be reimbursed. The only way to prevent commute mileage from being reimbursed is to ensure expense claims contain sufficient documentation, such as business locations traveled to and the business purpose of the trip. In addition, four of the five expense claims were not signed and dated by the manager.

*Recommendation*

8. *The Fair should ensure that all expense reimbursement request forms are adequately completed by the employee to demonstrate that all claimed expenses are business related. Any form lacking sufficient detail should be returned to the employee to update, prior to reimbursement.*

## NON-REPORTABLE CONDITIONS

### PREMIUM ACCOUNT

Account #114, Cash in Bank – Premium, contained a credit (negative) balance at year-end 2007 totaling \$640. A credit balance in the cash account represents insufficient funds to cover all outstanding checks. According to the APM, the premium account should contain a zero balance except during the fair when funds are transferred into the account to write checks to pay exhibitors. In reconciling the premium account, the bank balance should equal total outstanding checks. This was a prior year finding.

#### *Recommendation*

*The Fair should ensure that after the fair, Account #114, Cash in Bank – Premium, contains a zero balance and that the bank account contains sufficient funds to cover outstanding checks.*

### ADMISSION REVENUE

An examination of admission revenue records revealed the following internal control weaknesses:

- a. The Fair maintained insufficient controls over the Spring Festival ticket inventory. As a result, ticket sales and revenue owed the Fair cannot be verified. The Fair does not obtain the beginning and ending inventory of the Spring Festival tickets to determine tickets sold and the Fair share of revenue earned.
- b. The ticket seller's daily report prepared by the Spring Festival was incomplete, which could result in inaccurate revenue reporting. Missing from the report were the beginning and ending inventory, which are used to determine tickets sold.

#### *Recommendation*

*The Fair should strengthen controls over the Spring Festival ticket inventory by obtaining beginning and ending ticket inventory data and ensuring accurate completion of ticket seller's daily reports.*

### CARNIVAL REVENUE

The Fair exposed itself to possible losses by not obtaining a carnival recap sheet for 2007, which discloses carnival gross sales. Without the carnival recap sheet, the Fair is unable to verify whether the percentage of carnival revenue due the Fair is less than or greater than the guaranteed amount per the contract.

*Recommendation*

*The Fair should ensure they receive the carnival recap sheet to ensure they receive the correct amount of revenue from the carnival contractor.*

**FOOD CONCESSION REVENUE**

The Fair exposed itself to possible losses by not obtaining adequate sales documentation from alcohol vendors during fairtime. The Fair received no cash register Z-tapes from two vendors verifying accuracy of sales reported because the vendors did not use cash registers during 2007 event. According to the APM, contractors are required to use cash registers in good working order and capable of providing Z-tapes. In addition, the Fair received no beer invoices from an additional vendor indicating beginning and ending inventory of beer kegs. As a result, the Fair is unable to verify accuracy of sales revenue reported by the vendor.

*Recommendation*

*The Fair should ensure that all vendors use cash registers and that Z-tapes are received after each day. In addition, the Fair should ensure that beer invoices are received to verify accuracy of beer sales reported.*

**SPONSORSHIP AGREEMENTS**

The Fair did not prepare a written sponsorship agreement with five sponsors during 2007. According to the APM, all contracts are required to be in writing. A contract is an agreement between two or more parties and sets forth terms and conditions of the agreement. The written agreement would help alleviate any possible disputes between the Fair and the sponsors that may arise at a later date.

*Recommendation*

*The Fair should improve its controls over sponsorship revenue by ensuring a written contract is prepared for all sponsorship agreements entered into.*

**STATEMENT OF OPERATIONS**

The amount reported for cash on the 2007 Statement of Operations Schedule 3, Reconciliation of Bank Accounts, was understated \$200,000. The Fair incorrectly recorded cash investments totaling \$200,000 to Account #140, Other Assets, which is not a cash account and therefore does not appear on the balance sheet as cash. This is misleading and not readily identifiable as cash to the readers of the balance sheet. This investment should be recorded in Account #116, Cash in Bank – Investments.

*Recommendation*

*In the future, the Fair should ensure its annual Statement of Operations is adequately prepared by ensuring all cash amounts are classified to the proper balance sheet account.*



**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**



# CHOWCHILLA-MADERA COUNTY FAIR

P.O. Box 597, Chowchilla, CA 93610 • (559) 665-3728  
www.chowchillafair.org • FAX (559) 665-3720

California Department of Food and Agriculture  
Audit Office  
Ron Shackelford, CPA  
1220 N Street, Room 344  
Sacramento, CA 95814

March 11, 2009

This is the Chowchilla Madera County Fair's response to the audit findings sent to the fair. This response has been approved by the Board of Directors and duly noted in the minutes of the regular March meeting. Sorry for delay, the Board did not have a quorum at the February meeting.

## Reportable Findings:

### 1. Accounting for Fixed Assets:

The Fair has completed the property ledger and depreciation schedule. The Fair has made all appropriate adjustments.

### 2. Independent Contractors:

The Fair has received all of the correct paperwork from the IRS to determine who can be classified as a contractor. The Fair will be submitting the correct documentation to EDD as well as the FTB.

### 3. Junior Livestock Auction:

The Fair has reconciled the 2007 JLA Accounts while Auditor was at the Fair performing audit.

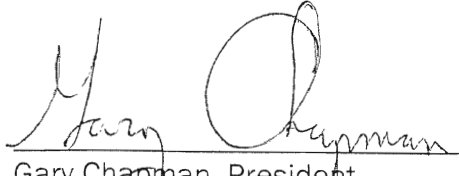
### 4. Employee Living on Fairgrounds:

The Fair has documented that the employee who lives on grounds will be receiving this as a fringe benefit and will be reported to the IRS each year.

### 5. Reimbursement of Mileage Expenses:

The Fair has ensured that all expense reimbursement forms are adequately completed by each employee to demonstrate that all claimed expenses are business related.

  
Carrie Mitchell, CEO

  
Gary Chapman, President


**CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the Chowchilla-Madera County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between November 3, 2008 and November 21, 2008. My staff met with management on November 21, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

  
For Ron Shackelford, CPA  
Chief, Audit Office

November 21, 2008

**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	President, Chowchilla-Madera County Fair Board of Directors
1	Chief Executive Officer, Chowchilla-Madera County Fair
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office